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Meet the MasterMinds: Michael Treacy on *Double Digit Growth*

Michael Treacy, former professor at MIT's Sloan School of Management and co-author of the bestseller, *The Discipline of Market Leaders*, has been helping companies achieve market success for more than twenty-five years.

He is the co-founder and chief strategist of GEN3 Partners, a consulting firm that works with clients on product innovations. Prior to Gen3 Partners, Treacy led a strategy consulting firm.

Treacy's new book, *Double Digit Growth*, presents a common sense way for companies to achieve and sustain profitable growth. MCNews talked to Treacy about business growth and about his views on the consulting industry.

MCNews: Does it seem to you that today's businesses place less emphasis on managing growth than on managing costs?

Treacy: No question about it, there is less emphasis on growth.

I can challenge almost any management team in any company to cut costs 10% in a year, and they would know exactly how to do that—what data to go grab, how to analyze it and how to set stretch objectives. They'd distribute responsibility for those goals and initiate projects and programs. And—boom, they'd find a way to meet that challenge.

But if you ask management teams to grow a business 10% a year, they don't have a clue. They'd say well, it would take some luck and we'd have to do some trial and error. But if the market isn't growing, there's just no way we could do it.

MCNews: Is the discipline required to achieve growth that different from what's required to execute large-scale cost reduction?

Treacy: It should be the same, right? You gather data, analyze it, set objectives, initiate projects and then have a follow-up process.

MCNews: Then why don't more business managers focus on growth initiatives?

Treacy: Most companies have no diagnostic information on growth, and managers don't spend a lot of time thinking about that aspect of their business. What does the typical budget in a company look like? It has maybe fifteen or twenty lines on cost and one or two lines on revenue.

Companies have invested billions in accounting systems that spit out a load of data on costs but almost nothing on revenue. The details about sources of revenue are not that difficult to figure out, but most companies don't have that basic information with which to run their businesses.

For years, many successful companies have grown profits on flat revenue. How? They became masters at cutting costs. But, we are reaching the outer limits on trimming costs and managers have wrung it out for about as much as they can.

There are also very few opportunities for price increases in most markets these days. If anything, people are worried about deflation. So if you've tapped out cost cutting and you've got no room to maneuver on price, how do you grow profits now? You've got to grow volume. And most managers don't know how to do that.

MCNews: Have consultants contributed to this focus on corporate cost reduction?

Treacy: The consulting profession has gotten world class at helping organizations cut costs. Look at strategic procurement, for example. It's just another version of cost cutting. Or look at process reengineering. Say what you will, 85% of it ended up being focused on cutting costs.

Consultants have developed a powerful capacity for helping their clients cut costs. In fact, if there is one area in which consultants should be able to guarantee results, it is cost cutting.

MCNews: So you think growth will get on the radar for businesses?

Treacy: I think a long-term shift is going to happen. We're going to see growth be the agenda for companies for many years to come. And I don't think consulting firms are tooled up to help their clients—or themselves—with that.

MCNews: How will the emphasis on growth impact consulting firms?

Treacy: They need to recognize that if you want to grow a business, it takes a lot more than a sales force. If you're not thinking about value propositions and about how to use acquisitions and other approaches to help drive growth, then you're missing critical pieces of the puzzle.

The truth is you don't need to be very strategic or even very smart to get behind an aggressive sales force and grow a business to a certain level. You'll reach limits, but for a while you can grow like crazy that way. And that's exactly what consulting firms have done.

It's ironic that while professional services are essentially revenue driven, consultants don't know a lot about how to grow revenue.

MCNews: Do consultants need to change how they sell their services?

Treacy: For complex sales, a shift is already taking place in many industries. The old approach was to put super smart salespeople out there and give them some marketing and sales support. They lived on their wits and their incentive programs, and they made it happen.

But that's an expensive and risky way to sell because you end up paying those smart salespeople a ton of money. So some companies have flipped that around and have started to de-skill their sales forces.

All sorts of industrial product companies are headed in that direction. But I don't see consulting firms moving that way at all. Instead, consulting firms still rely on the million-dollar-a-year partner to do the selling.

In consulting firms, the bias in the partner process is toward revenue generators. Too often, the best consultants don't have the "numbers" to make it to partner. If you could find a different model for how to sell consulting services, you could broaden the criteria for selecting partners and end up with better partners running the firms.

MCNews: Is there a sound growth strategy for consulting firms?

Treacy: There are a lot of other complexities, but half of success really is about providing value to clients. And, I have to tell you, the value propositions most consultants put forward these days aren't worth much.

There's a cancer that is eating away at the stability of this industry, and that is the cost structure. The costs drive outrageous rates that, in turn, demand either superhuman levels of value or a real compression in the client-consultant relationship. Clients have to use consultants in just so precise a way that they can get enough value in a short period of time.

What's almost as bad is consultants' lack of perspective on the value of what they do. It brings to mind the old Saul Steinberg poster of a New Yorker's view of America. Somebody needs to produce a consultant's view of impact. I've talked to many consultants who actually believe that the delivery of a strategy is more than 50% of what it takes to drive results for clients. And I look at them like they're insane.

I have never seen strategy be more than 5-10% of what it takes to achieve results. What drives results is a very complicated, multidimensional beast. There are risks in many areas, most of which have to do with the management of people—not strategy and not systems.

Consultants want to get paid a premium as if they are at risk for results but they are, quite truthfully, utterly unwilling to take those risks.

MCNews: In the product world you do get a guarantee that this, whatever—hair tonic—will make you grow more hair. If consultants say here's the result we'll deliver, why can't they guarantee those results?

Treacy: Because deep down they understand that they control only 10% of the variables. In their heart of hearts they know that their proposition is a lie. That's one reason I think the consulting industry is morally bankrupt.

And, by the way, all these comments about consulting? Just change the word to professional services. Advertising as an industry is just as morally bankrupt. And look at the troubles investment managers have gotten into on ethical issues. These people are not at risk for results. And they have an outlandish opinion of their self-worth that drives cost structures and premium pricing that, in the end, isn't justifiable.

MCNews: What insights have you gained from your own consulting ventures?

Treacy: I started a consultancy in 1995 with the avowed purpose of showing the big firms how consulting should be done. I was going to do the true and honest consulting that young, small firms try to do.

We weren't going to have a pyramid structure. It was going to be more like a cylinder—one partner, one principal and one associate. We were going to do short-term assignments and get out of the client so we weren't sitting there always looking for the next job.

We did tremendous work but couldn't make enough money. Without the pyramid structure, you can't pay partners what they think they're worth. And if you don't spend your time groveling for the next assignment, business development eats you alive.

So the first lesson I learned was about the difficult economics of the consulting industry, especially the cost of business development and the cost of personnel.

Over time, my firm grew to be very successful. But I'd given up on every principle I had. We had a pyramid structure. We were doing long assignments. And in month one, I was trying to get the next assignment from that client.

In 1999, I left to start a new business with Jim Sims. We bought a tiny company made up of Russian scientists with an amazing methodology for science-based product innovation. It's the first time in my life in professional services that I'm not embarrassed to discuss fees.

Not all consultants have to do what we're doing, but the whole industry has to address this cost cancer, especially the big firms.

MCNews: Are there other reasons that you're not enthusiastic about big consulting firms?

Treacy: These firms gravitate to companies that are under-led and under-managed. You don't see consulting firms billing \$10 million a year to General Electric or Wal-Mart or any of the other highly successful companies out there.

The big consulting firms often put desperate companies on a form of life support. Maybe it's just a sad reality that there will always be laggards in the market who look to third party experts as their salvation.

MCNews: And they buy a lot of work. The question consultants have to ask themselves is whether or not what they are doing is actually helping.

Treacy: Yeah—do I want to be a party to this? It's like plastic surgeons that have patients who come back again and again. There's a point at which you have to ask is this ethical?

MCNews: If you look at the past history of the consulting industry, it looks cyclical. Do you think there really are cycles for consulting?

Treacy: I think three cycles are piled on top of each other. There's no doubt there's an economic cycle, right? When clients tighten their budgets, the first thing they cut is discretionary spending, and surely most consulting is discretionary. So that is for real.

The second cycle that has a significant impact on the consulting industry is what I will simply call the euphoria cycle—and it doesn't necessarily correlate to the economic cycle. There are eras when companies are highly optimistic, concept-oriented and futuristic in their thinking. Then there are times when companies get very realistic, tactical and show-me-the-money oriented.

The 1990's were a period of euphoria for businesses. Witnessing the shift to the current period of cynicism has been like watching a bi-polar personality. The higher we went in the 1990's, the only certainty was the lower we'd go when it went the other way.

I don't see us climbing out of this cynicism cycle for three to five years, even if the economy continues to improve. I think the degree of cynicism clients have about the new, the possible and the conceptual will remain with them for a long time.

MCNews: You mentioned three cycles. What's the third?

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Treacy: The third cycle is related to the euphoria cycle. We have to recognize that business innovation is the little engine that has driven the whole consulting industry.

Twenty-five years ago when companies thought about innovation, they thought mostly about product innovation. Then along came some companies—Wal-Mart, Southwest and FedEx, for example—that proved with powerful business models that you can have as much impact in a market by innovating how you do business as you can by innovating what you sell.

The business innovation cycle peaked at the top of the Internet boom when people thought that the reinvention of business models could somehow overrun wealthy, well-established companies. Since then, I think the business innovation cycle has run dry.

You tell me—what's the big, bold, new idea in business today? I can't find it. We had reengineering in 1990, followed by new economy, web-based company models around 1998. Those were the last two.

So here's where we are in consulting. We're in a modest up-tick in the economic cycle. We might have hit bottom in the euphoria/cynicism cycle. And in the business concept cycle there is no big concept in sight that has broad appeal.

We're in a slightly strengthening economy, with deeply cynical clients and no big new idea. So is this market going to get better? Don't bet on bonuses this year either folks. You haven't gotten a bonus in three years? Well, this is year number four coming up.

MCNews: What about outsourcing as the next idea?

Treacy: I have told audiences far and wide that business process outsourcing is a huge, twenty-year opportunity. That assumes, of course, that you can take over a process and commit to results—not just effort, but real results.

Opportunities have to be chosen carefully because outsourcing will be incredibly remunerative for some business processes, but for others, profitability will be elusive.

But business process outsourcing might be the next big idea. In fact, it could be the salvation of professional services if the industry got behind it and said let's build the capabilities we're missing to be able to commit to results.

MCNews: Last question: what are you reading these days?

Treacy: I'm rereading Darwin's *The Origin of Species*, and for a very specific reason. The idea is that products and technologies follow evolutionary lifecycles that are similar to natural selection among biological entities.

I'm trying to understand, not just Darwin's basic idea, but evolutionary systems and what's new and different about that science. I'm going look at how evolution applies to technology and try to more deeply understand what our Russian scientists have on that front.

MCNews: That's fascinating. Thanks for your time.

You can find out more about Michael Treacy at www.michaeltreacy.com and about his company and services at www.gen3partners.com.